



UNIVERSITI PUTRA MALAYSIA

**THE INFLUENCE OF CORPORATE CULTURE AND
ORGANIZATIONAL COMMITMENT ON FINANCIAL
PERFORMANCE OF MALAYSIAN ORGANIZATIONS.**

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**THE INFLUENCE OF CORPORATE CULTURE AND
ORGANIZATIONAL COMMITMENT ON FINANCIAL
PERFORMANCE OF MALAYSIAN ORGANIZATIONS.**

**Thesis Submitted in Partial Fulfillment of the Requirement for the
Degree of Masters of Science in the Graduate School of
Management
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**This thesis is specially dedicated to my beloved mother, Che Puteh Md. Rejab
and wonderful husband, ~~Shahrulnizam~~ Abd. Ghani.**

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in partial fulfillment of the requirement for the Degree of Masters of Science.

THE INFLUENCE OF CORPORATE CULTURE AND ORGANIZATIONAL COMMITMENT ON FINANCIAL PERFORMANCE OF MALAYSIAN ORGANIZATIONS.

By

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FEBRUARY 2002

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This study examined the influence of corporate culture and organizational commitment on financial performance in Malaysia. The study also examined the influence of corporate culture and organizational commitment on organizational characteristics (type, age and size). Deshpande and Farley's (1999) corporate cultural types and Meyer and Allen's (1990) organizational commitment types instruments were used in this study. As for financial performance, two types of performance measures were used: Profitability measures (Return on Assets, Return on Investment) and Liquidity measure (Current Ratio).

A total of 101 public listed companies from various industries participated in the study. It was found that there were significant correlations between corporate culture and organizational commitment. Specifically, there was a relationship between consensual culture with all the three types of organizational commitment: affective, continuance and normative. Both entrepreneurial and competitive cultures were found to be correlated with affective and continuance

competitive cultures were found to be correlated with affective and continuance commitments. Bureaucratic culture was not significantly correlated with any of the organizational commitment types. The analysis between corporate culture, organizational commitment and financial performance also showed that both corporate culture and organizational commitment had significant influence on the financial performance, especially for the profitability measures. Finally, it was found that corporate culture did not influence organizational characteristics. Nevertheless, organizational commitment was found to have significant influences on all the three types of organizational characteristics.

From this research, we may conclude that an appropriate corporate culture in the right work environment could promote work and organizational commitment. The right combination of both (corporate culture and organizational commitment types) can assist to enhance productivity and financial performance.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi sebahagian keperluan untuk ijazah Master Sains.

**PENGARUH BUDAYA KORPORAT DAN KOMITMENT ORGANISASI
KEPADA PRESTASI KEWANGAN ORGANISASI-ORGANISASI DI
MALAYSIA.**

Oleh

JULIANA BINTI JOHARI

FEBRUARI 2002

Pengerusi: Professor Md. Zabid Abd. Rashid, Ph.D

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Kajian ini mengenalpasti pengaruh budaya korporat dan komitment organisasi terhadap prestasi kewangan di Malaysia. Kajian ini juga mengenalpasti pengaruh budaya korporat dan komitment organisasi terhadap ciri-ciri organisasi (jenis, umur dan saiz). Jenis-jenis budaya korporat oleh Deshpande dan Farley (1999) dan jenis-jenis komitmen organisasi oleh Meyer dan Allen (1990) digunakan untuk kajian ini. Bagi kemajuan kewangan, dua jenis ukuran prestasi telah digunakan iaitu Ukuran keberuntungan (Pulangan atas Aset, Pulangan atas Pelaburan) dan Ukuran kecairan (Nisbah Semasa).

Sejumlah 101 syarikat terdiri daripada pelbagai industri yang disenaraikan di bursa saham Kuala Lumpur mengambil bahagian dalam kajian ini. Didapati bahawa, terdapat hubungan yang nyata antara budaya korporat dan komitment organisasi terutamanya di antara budaya 'consensual' dan ketiga-tiga komitment organisasi iaitu komitment 'affective', 'continuance' dan 'normative'. Budaya 'entrepreneurial' dan 'competitive' kedua-duanya didapati berhubung-kait

dengan komitmen 'affective' dan 'continuance'. Budaya birokratik tidak mempunyai hubungan-kait dengan mana-mana jenis komitmen organisasi. Analisa di antara budaya korporat dan komitmen organisasi terhadap prestasi kewangan menunjukkan bahawa jenis budaya korporat dan jenis komitmen organisasi responden memberikan kesan terhadap prestasi kewangan terutamanya ukuran keberuntungan. Akhir sekali, didapati bahawa budaya corporate tidak mempunyai pengaruh terhadap ciri-ciri organisasi. Akan tetapi jenis komitmen organisasi didapati mempunyai pengaruh terhadap ketiga-tiga ciri-ciri organisasi.

Daripada kajian ini, maka dapatlah dirumuskan bahawa sesuatu budaya korporat yang sesuai di dalam suasana kerja lebih baik dapat meningkatkan komitmen terhadap kerja dan organisasi. Kombinasi jenis budaya korporat dan komitmen organisasi yang sesuai dapat membantu meningkatkan produktiviti dan prestasi kewangan.

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I certify that an Examination Committee met on 13th December 2002 to conduct the final examination of Juliana Bt. Johari on her Masters of Science thesis entitled "The Influence of Corporate Culture and Organizational Commitment on Malaysian Organizations" in accordance with Universiti Pertanian Malaysia (Higher Degree) Regulation 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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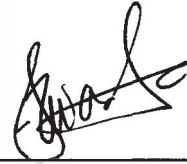


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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations, which have been duly acknowledged. I also declare that it has not been previously or currently submitted for any other degree at UPM or other institutions.



JULIANA JOHARI

Date: 4th FEBRUARY 2001

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CHAPTER I

1.1 INTRODUCTION

Corporate culture, organizational commitment and financial performance have been considered as important elements in a successful organization today. Therefore, the present study on the relationship of the three variables is important for managers in determining the implementation of the appropriate commitment and corporate cultural type for the employees so as to achieve organizational success.

In business, managers often speak of developing the right kind of culture or a culture of quality. This suggests that culture is concerned with certain values that are inculcated in their organizations. As such, it is assumed that there are better or worse cultures, stronger or weaker cultures, and that the right kind of culture will influence the effectiveness of the organizations. The type of management development and other management practices, therefore, should take into consideration the cultural values or individual values of the employees within the organization (Asma, 1992).

Writers of management and organizations have suggested that aspects of organizational culture, particularly cultural values, can have an impact on the performance, productivity and service quality (Burke, 1997; Peters, 1987). Without a clear understanding of what constitutes an acceptable behavior, styles and practices at the workplace, managers may be considered as not sensitive, inconsiderate or even ineffective, thus affecting the management practices (Asma, 1992).

Consequently, a better understanding of Organizational Culture is necessary to decipher what goes on with it. According to Schein (1992), organizational culture refers to patterns of shared basic assumptions that the group learns as it solves its problems of external adaptation and integral integration. It is also considered relevant and should be taught to new members as a correct way to perceive, think and feel in relation to those problems.

Many researchers have suggested that, to understand better a culture, one should view the accumulated sharing of learning of a given group covering behavioral, emotional, and cognitive elements of the group members' total psychological functioning (Schein, 1992; Deal & Kennedy, 1982; Hofstede, 1984).

In addition to the cultural aspect some level of belongingness, such as an organizational commitment is expected to create useful emotional bonds

between an organization and its employees. If the employees believe that the organization cares about them and their happiness, treats them with consideration, and distributes rewards accordingly, those employees will far more likely to have positive attachments to their employers (Mowday, et al, 1982).

Employees in modern organizations are increasingly expected to display efforts, motivation and initiatives. The success of an organization depends not only on how the organization makes the most of human competence, but also how it stimulates commitment to an organization (Nijhof, 1998). The question now is, how important is commitment to an organization?

Organization commitment is viewed as a psychological state that characterizes the employee's relationship with the organization, and has implications for the decision to continue his or her membership in the organization (Meyer, 1991).

An organization's commitment to employees may be reflected in its care for its employee's being and satisfaction. O'Reilly and Chatman (1986) found that an organization's commitment to its employees resulted in better 'citizenship' behavior from workers. As such understanding employees' commitment is important in shaping an organization and its culture.

In judging corporate success, financial performance is one of the important parameters used by previous researchers. The following four financial ratios were applied by Van der Post (1998). They were return on average equity, return on average assets, total asset growth rate and share return.

The fact that hard financial data have been applied to differentiate between organizations in terms of their respective level and effectiveness, should not be viewed as an attempt to negate other possible indicators of organizational effectiveness. This is because, from a system's perspective wherein the organization is viewed as a system, it can be argued that hard financial data offers a more appropriate basis in which organizational effectiveness can be measured. This argument can be based on the premise that financial data forms an integral part of various systems dimension.

In addition, from a structural perspective, financial considerations are evident in the nature of many entities that are incorporated in the system. Meanwhile, for a process perspective, the financial aspect is one of the manifestations of the dynamic relationship between entities in the system. From a functional perspective, the financial aspects particularly in terms of financial performance, will affect on various entities' perception of an organization's

effectiveness and as such have a very real impact on the continued existence of the organization (Van der Post, 1998).

As such, a powerful argument can be put forward that the financial data provide a sound basis to make inferences about effectiveness. Financial performance data span various dimensions in organizations should provide a sound framework to study the link between the culture dimension in an organization and the system's overall effectiveness.

Malaysian Management Values and Concept

In line with vision 2020, Malaysian managers are required to develop a strong religious business community imbued with the highest ethical standards and at the same time maintain a balance between values of materialism and spirituality (Asma, 1992). This means that Malaysian managers must be able to operate both in a rational and scientific modes. They should also adhere to the conventions of commercial transactions and fulfill their social and religious obligations in the community of which they are part of it.

The application of Western strategies and formulae in management cannot be fully rejected in the management of workforce in Malaysia. Malaysian

managers should look at their suitability to maintain or upgrade the commitment and performance of workforce. Ideas and theories from the Western societies can be a real source of inspiration for Malaysian workforce management, so as to develop our own practices based on local perspectives.

Being a multiracial society, Malaysian managers need to draw strengths from their own cultural values to develop shared practices, styles and techniques, which are appropriate. These values will play important roles in developing and implementing a culturally synergistic workplace. As such, the implementation of the right corporate culture is seen as one vital way to improve the level of commitment, thus increasing the level of performance of the workforce in Malaysia.

1.2 PROBLEM STATEMENTS

In the past, a great deal of attention has been given to the study of corporate culture, organizational commitment and financial performance. However, only a few have been conducted on the study of corporate culture and organizational commitment and how they affect the financial performance of an organization (Jeena, 1993; Denison, 1990).

Most of the previous research measured corporate culture and organizational outcomes using the organizational behavior approach like the turnover rate, absenteeism, employees' motivation or job satisfaction's level (Steers, 1977; Meyer, 1984; Angle, 1981; Iverson, 1996; Stephen, 1998; Darwish, 1998). Also, many researchers tend to relate corporate culture and organizational commitment as independent topics. There are many studies investigating relationships between corporate culture and financial performance or between commitment and financial performance. There have been very few studies that investigated relationships between corporate culture and organizational commitment.

Therefore, this study will conduct analyses of whether financial performance as the outcome of successful implementation of corporate culture and organizational commitment.

Corporate culture and organizational commitment could be seen as very much correlated to each other. Also, the correlation could be treated as one component that led to financial performance. The kind of culture an organization adopted would affect the organization's commitment, thus determined the level of employees' performance.

1.3 OBJECTIVES OF THE STUDY

The main objective of this study was to analyze the influence of corporate culture and commitment on the financial performance of Malaysian organizations. The type of corporate culture and organizational commitment could lead to substantive effects of an organization's financial performance. Therefore, the study proposed to analyze the types of corporate culture and the types of organizational commitment and their effects on the financial performance of an organization.

Specifically, the study are guided by the following objectives:

1. To examine the relationship between corporate culture and organizational commitment.
2. To examine the influence between corporate culture and financial performance.
3. To examine the influence between organizational commitment and financial performance.
4. To examine the influence of company type, years of establishment and number of employees (company size) on corporate culture and organizational commitment.

1.4 IMPORTANCE OF THE STUDY

Most people are comfortable with the idea that their companies have some dimensions of corporate culture. They are, however, unsure what the word means in business context and how to make a better understanding of their own corporate culture. It was suggested that an understanding of corporate culture could reduce the risk of failure (Schein, 1992). Therefore, it is important to clarify the meaning of corporate culture and how a company's culture can be usefully understood (Schwartz and Davis, 1981).

Furthermore, commitment appears to be an important element among employees. This is because organizational commitment is not just about being loyal to the company (Buchanan, 1974), but also about the strength of involvement and the sense of identification in a particular organization (Porter, 1974). A variation in the levels of commitment is also another aspect to be understood because the right kind of commitment in a right kind of setting will promote good expectations of an organization (Elsass, 1989).

This study could be useful for academics and practitioners. From an academic perspective, this study could improve our understanding of the influence that corporate culture and organizational commitment might have on the financial performance of their organizations in the Malaysian context. In a way it is how Western ideas and theories of management practices can be tested to show whether they are suitable and practical for Malaysian workforce (Asma, 1992). So, the generalization of the theories could be examined further. As far as practitioners were concerned, this study would facilitate them with the choice of the right combination of corporate cultural and organizational commitment types that helped enhance the financial performance of an organization.

In Malaysia, there was no previous research done on the three variables together (corporate culture, commitment and financial performance). Some of the previous research focused more on the different ethnic backgrounds and how